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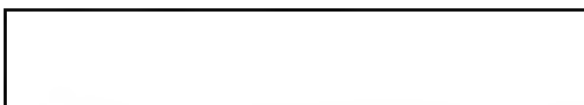
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State Dept. review completed

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026400130001-4

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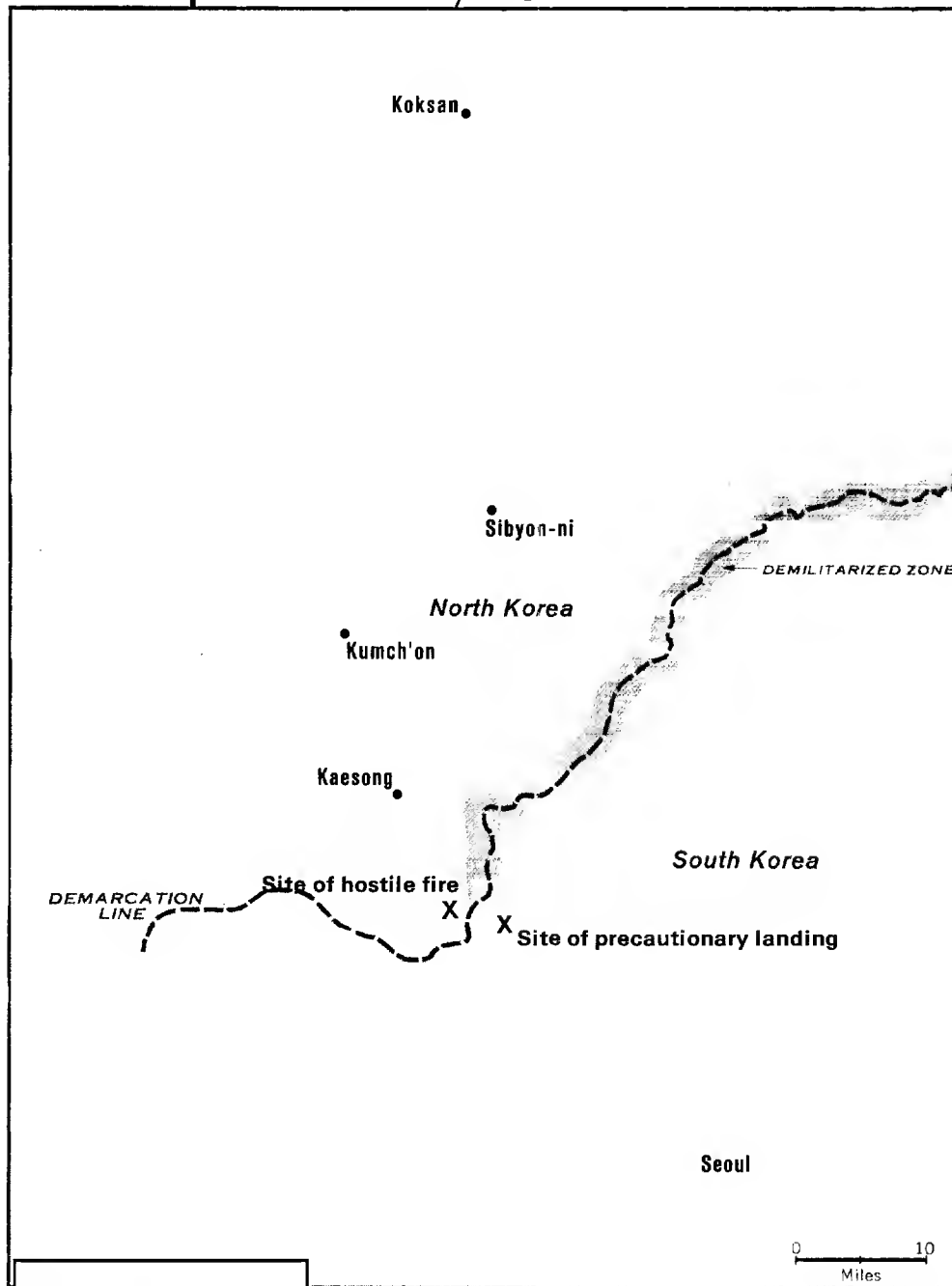
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U S Helicopters Harassed by Fire



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KOREA: Two US helicopters were fired upon early yesterday morning while flying a routine reconnaissance mission near the demilitarized zone. One helicopter sustained minor damage and made a precautionary landing; the other was undamaged.

No US casualties were reported, although Seoul claims that one civilian was injured. The pilots reported tracer fire from North Korea and estimated that over 500 rounds were expended against them. Preliminary reporting indicates that the helicopters were over South Korean territory when fired upon and that they did not violate North Korean airspace.

Pyongyang's apparent willingness to fire on these aircraft is probably an isolated incident similar to several that have occurred in the past few years. In this case, the firing may have been a reaction to recent unfounded charges by Seoul that the North has fired artillery shells across the DMZ.

The North Koreans have already reacted to this incident. Pyongyang claimed last night that the South Koreans had sent a helicopter on an espionage mission over North Korean territory near the Yimjin River estuary, where it drew fire from ground forces.

The incident is certain to draw countercharges from Seoul, but neither side is likely to take any additional action.

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SPAIN-PORTUGAL: The Director General of the Spanish Foreign Ministry told a US Embassy officer recently that the Spanish Government is divided over the implications for Spain of the overthrow of Portugal's right-wing government.

In general, it appears that those opposed to the tight control Franco maintains in Spain are drawing encouragement from the coup in Portugal. The more conservative members of the establishment, on the other hand, see it as a further reason to proceed cautiously with the liberalization program that Premier Arias announced three months ago. For the Spanish, Portugal, in effect, has become a proving ground for both points of view.

Opposing points of view have also been aired in public speeches and the media. Initial press coverage in Spain of General Spínola's takeover was uniformly favorable. Within a few days, however, commentators began mentioning the possibility that events in Portugal might get out of control because of the increasing influence of the left. Some Spanish correspondents are still featuring Spínola's intentions to democratize Portugal, presumably to draw attention to the advisability of a similar course in Spain.

Recent statements by three prominent political figures have added to the controversy. Two of the statements defended the conservative point of view and warned against the machinations of "false liberals" and the evils of formal political associations. The other statement, made by a cabinet minister, criticized those who wish to remain immobile and encouraged the Spanish establishment not to "enclose itself in a defensive bunker."

The debate in Spain on these issues may intensify in the near future. Yesterday, Spanish police routed thousands of Madrid University students who

were demonstrating in favor of the new regime in Lisbon. Spanish hard-liners are certain to point to disorders of this kind to illustrate the dangers of a sudden relaxation of controls.

There is some evidence, however, that a number of Spanish officials are impressed by the pledges of support Portuguese Socialist leader Mario Soares received during his recent tour through Western Europe. If Spínola's reforms succeed in Portugal and pave the way for entry into the European Community, proponents of a similar liberalization in Spain will multiply.

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*DENMARK: Some adroit parliamentary maneuvering by Prime Minister Hartling has delayed the calling of a new election. Parliament, however, still has to vote on the Prime Minister's controversial tax measures next week.

After an all night debate on Hartling's tax proposals, parliament adopted an unusual confidence motion in the government. A number of members who have announced their opposition to the tax increases voted for the resolution.

The Social Democrats and Mogens Glistrup's anti-tax party, Denmark's two biggest political parties, have refused to go along with the minority government's sweeping tax changes. The Prime Minister had threatened an early election as a calculated gamble aimed at winning the support of the other opposition parties, who are fearful that an early election will further erode their parliamentary standings.

In last December's election, all the established parties lost ground. Glistrup's anti-tax party, however, was one of the few gainers. Since that time, only his party and the Social Democrats have shown improvements in the public opinion polls.

Hartling's minority government holds only 22 of the 179 parliamentary seats. It has managed to survive since December with the informal backing of two other small parties and the Social Democrats.

Hartling's taxes are aimed at reducing imports, the second time in two weeks that an EC country has adopted such measures. The government imposed a sales tax surcharge on a wide range of consumer durables and luxury goods, many of which are imported. The surcharge will increase the consumer price of television sets by 50 percent, home appliances by 33 percent, and automobiles by 25 percent.

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A 25-percent tax was also imposed on electricity consumption to reduce demand for imported coal and oil. Danish electric utilities depend almost entirely on these fuels to generate power. The higher cost of oil and coal imports has helped to boost Denmark's first quarter trade deficit to \$700 million, double that for the same period last year.

EC officials reportedly are annoyed by the Danish measures, viewing them as a move toward increased protectionism similar to the Italian import surcharge. Community spokesmen admit, however, that the Danish move is legal under the EC treaty. Bonn announced yesterday that it will not take counter-measures to the actions by either Rome or Copenhagen.

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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CSCE: Western heads of government are likely to be under strong pressure to attend the third and concluding phase of the CSCE, which Moscow is anxious to crown with a final summit agreement. Many West European participants strongly oppose the Soviet plan unless Moscow makes substantial concessions, especially on freer movement of persons and ideas.

Western delegations now are more pessimistic than ever about prospects for a rapid or successful conclusion of the CSCE, because the expected Soviet concessions on freer movement have failed to materialize. Although Moscow was expected to hold back on concessions until the last minute, many Western delegates are now saying that unless the Soviets make a move soon, it may be too late to convince Western opinion to accept the results as being worth a summit conclusion.

Despite the prevailing air of pessimism, a recent review of the outlook for the final phase of the CSCE by the US delegation concludes that attendance by most heads of government at the signing ceremonies is likely. The review notes that a consensus of all delegations is required to implement plans for the level of participation in the final phase. The Warsaw Pact nations have already declared that they will oppose a final phase at the foreign ministers' level. The most likely outcome therefore will be general agreement to allow each participant to determine the level of their participation.

A decision by the Warsaw Pact and nonaligned heads of government to participate in the final phase of the conference, however, would create external and internal political pressures to attend that few West European leaders could resist. The ensuing summit meeting of most of the leaders of the 35 participating European and North American states would be regarded as evidence that the West considered the conference a complete success. The EC Nine have

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recognized this danger in a draft position paper, which recommends against leaving it up to each participant to decide the level of its delegation to the final phase.

Some Western participants are still confident that Moscow will make concessions, if for no other reason than that the Soviets desire a summit finale and completion of the conference this summer. Realization of this goal is increasingly unlikely, despite the substantial progress made during the pre-Easter session. Most of the major issues remain unresolved, and if the West continues to hold out for further Soviet concessions it will probably take most of the summer to complete an agreement. An early fall date, possibly October, for the final session thus appears likely.

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USSR-CHINA: After two months of relative restraint, the Soviets have begun a press campaign on the incident last March that resulted in a helicopter crew being held by the Chinese. In the last few days, there have been two articles in Literary Gazette, one in the military newspaper Red Star, and several radio commentaries.

The coverage, which seems aimed at getting the Soviet version of the helicopter incident firmly on record, suggests Moscow has lost hope of getting the crewmen back any time soon. It may also indicate that the Soviets have little hope of preventing Peking from holding a show trial.

The campaign is not yet very extensive, but it could develop into a full-fledged, anti-Chinese campaign. Moscow will probably stop short of that, however, for fear that heightened Sino-Soviet tensions could be exploited by the US at the coming Soviet-US summit.

The commentaries portray the Soviet helicopter crew as innocent victims of China's anti-Sovietism. Some new details, allegedly based on transcripts of tape recordings of the pilot's remarks just before landing, are offered to buttress the Soviet case that the helicopter was on a legitimate mercy mission. One article on the family of the helicopter commander made a mawkish appeal for public sympathy.

The articles reiterate the warning made in Moscow's formal protest to the Chinese on May 2 that China will face the "inevitable consequences" if the helicopter crew is not immediately returned. The articles made no threat of specific action, however, and China issued a similar warning when it protested the incident on March 23.

China has turned aside Moscow's "demand" of May 4 that Ambassador Tolstikov in Peking be allowed to meet with the Soviet crew. Chinese officials in Moscow maintain that Tolstikov was told only that the

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crewmen would be dealt with according to "Chinese law." Peking has not responded yet to the new Soviet campaign. It has not answered Moscow's last two protests and has privately equivocated on the question of a trial of the Soviet airmen. Given the current political tensions in China, the Chinese may still be undecided about how to play the incident.

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JAPAN-CHILE: Japanese business interests are increasing their involvement in Chile.

Private Japanese investment in Chile now totals about \$65 million in loans and equities, but this figure will probably increase substantially in the next few years. Japanese firms are prepared to spend close to \$60 million to resume development of an iron ore deposit--suspended since 1970--and another \$30 to \$50 million to finance construction of an iron ore pelletizing plant, another delayed venture. In return for the pelletizing plant, Chile will provide Japan 7.5 million tons of concentrates over a three-year period. Japan already buys most of Chile's iron ore production. The Japanese are also leading buyers of Chilean copper, and they may invest in copper enterprises in return for increased supplies of refined copper.

A leading Japanese automaker, the Nissan Motor Company, is about to begin assembling autos in Chile in a joint venture with Santiago. Nissan may provide a \$22-million loan for the enterprise and has promised to invest an additional \$9 million to build an automobile parts plant. Plans call for output of 14,000 cars annually by 1980.

A Japanese trading company recently provided \$12 million in commercial credit to finance Chilean purchases of Japanese equipment. This loan, the first of its type since the fall of the Allende government last September, will likely be followed by more. Financing by Japan's Export-Import Bank, however, will probably await resumption of US Exim Bank lending to Chile.

Tokyo is not now considering concessionary aid to Santiago. Such aid may eventually be extended, however, to help develop Chile's resources and infrastructure, to facilitate shipment of raw materials to Japan, and to promote exports of Japanese equipment. Tokyo has granted concessionary aid to other countries in the past for similar purposes.

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LAOS: Right-wing elements are disturbed over Prime Minister Souvanna's recent decision not to open the National Assembly tomorrow. The US Embassy reports that conservative politicians are bitter about Souvanna's concession to the Lao Communists on this matter and are unhappy that rightist cabinet ministers failed to defend their interests. The rightists also reportedly believe that their defeat on the first major political issue faced by the new coalition government reflects the lack of unity and leadership on their side.

Defense Minister Sisouk was particularly depressed about the political portents of the assembly affair. He indicated to the US ambassador earlier this week that it was unlikely that the disorganized rightists could pull themselves together and try to regain the political initiative from the Communists.

Souvanna, meanwhile, appears confident that any last-minute efforts by the rightists to persuade the King to reverse the decision on the assembly will fail. According to Souvanna, the King has reacted calmly to the decision and has assured the Prime Minister that he was ready to accept any and all recommendations made to him by the new government. [REDACTED]

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MALAYSIA-CHINA: The stage is set for the opening of Sino-Malaysian diplomatic relations. A joint communiqué on recognition was initialed late last week following protracted negotiations at the UN. Malaysian Prime Minister Razak will visit Peking at the end of the month for the signing of the communiqué.

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Malaysia will be the only member of the Association of Southeast Asian Nations (ASEAN) to have diplomatic relations with Peking. Other members are not likely to follow its lead soon. Indonesia and Singapore have strong reservations about ties with Peking, the new civilian leadership in Thailand is following a measured pace in resuming a dialogue with the Chinese, and the Philippines has expressed interest but taken no concrete steps.

Razak intends to explain Malaysia's move to the other members of ASEAN and try to ease their fears of subversion staged from a Chinese diplomatic mission in Kuala Lumpur. He has already met with Indonesian President Suharto and has invited Singapore's Lee Kuan Yew to visit Kuala Lumpur in the next few weeks.

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VIETNAM: More Fighting in Store for the Highlands?

The North Vietnamese over the past few months have augmented their combat forces in the central highlands of South Vietnam's Military Region 2. Communist combat units have shifted closer to Kontum and Pleiku cities over the past few weeks, and skirmishing around these provincial capitals is probably a Communist effort to keep the government on the defensive and away from important base areas and infiltration routes. The relatively slow pace of infiltration to the highlands this dry season, however, suggests that the North Vietnamese are not planning a large-scale offensive in this region in the next few months.

At various times, both sides have had the initiative in the highlands since the cease-fire. Aware that the North Vietnamese were understrength, General Toan, the MR 2 commander, has conducted operations along the fringes of Communist-held territory in an attempt to draw the enemy into the open where he could use his air and artillery firepower. Toan's strategy has generally failed. North Vietnamese strategy, on the other hand, seems to have centered on protecting their infiltration routes and eliminating isolated government outposts. They have made only a few attempts to occupy some contested or government-controlled territory.

The first of these confrontations took place last June when government troops moved to reoccupy the village of Trung Nghia in Kontum Province, which had been seized by the Communists shortly after the cease-fire of January 1973. After three months of heavy fighting, the South Vietnamese retook the village.

In late September, North Vietnamese tanks and infantry troops, supported by artillery fire, forced the government to abandon an outpost at Plei Djereng in nearby Pleiku Province. The base remains in Communist hands, despite government attempts to recapture it.

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Last fall, heavy fighting broke out in Quang Duc Province. The Communists used a mixed force of armor, artillery, infantry, and sappers to drive South Vietnamese units from several outposts along the Cambodian border. The bases were close to the new infiltration route that the North Vietnamese were then building through that sector, and the Communist objective was to secure the route from government harassing attacks. Thus far, the South Vietnamese have managed to recapture only one of the positions, the Dak Song outpost. Two others remain in Communist hands

In more recent fighting around Kontum City, limited government attempts to cut Communist roads have resulted in severe North Vietnamese reaction. These counterattacks, plus more recent attacks in Pleiku Province, may indicate a North Vietnamese attempt to keep the South Vietnamese relatively dispersed.

Communist Buildup

Since the cease-fire in January 1973, the North Vietnamese have steadily enlarged their combat forces in the highlands, where they now have 25,000 troops, compared to 38,000 for the military region as a whole.

These new troops are enabling the Communists to rebuild understrength units and begin to establish a manpower pool. The infiltration total, however, is considerably lower than in past years--an indication that the North Vietnamese are not preparing for a large-scale offensive any time soon.

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The buildup in air defenses has already caused the South Vietnamese Air Force to change its interdiction tactics. Some government aircraft attacking Communist targets in heavily defended areas of Kontum and Pleiku provinces are now dropping their bombs from as high as 20,000 feet, significantly reducing their effectiveness.

Government Forces

The South Vietnamese have approximately 78,000 men under arms in MR 2, including two infantry divisions, seven Ranger groups, and one armored brigade. The South Vietnamese Air Force provides tactical support to these forces. The bulk of the government's combat forces (45,000 men) is located in the western half of the region.

Although the government holds a significant advantage over the Communists in terms of troop strength, many of the government units have very poor combat records. A number of MR 2 units also have high desertion rates.

The South Vietnamese now find themselves manning defensive positions in Kontum, Pleiku, Darlac, and Quang Duc provinces. Many government positions, including those around the provincial capitals of Kontum and Pleiku, are difficult to resupply and reinforce. The roads pass through rough terrain and are easily interdicted.

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Although the Communists are obviously better off than they were a year ago, they still lack a clear military superiority. In fact, neither the government nor the Communists seem to have much of an edge. Even now, Saigon has nearly twice as many combat troops in the highlands as the Communists have, although this advantage is partly offset by North Vietnamese firepower.

As long as this balance remains relatively intact, neither side is likely to make any large-scale combat commitment of its forces. The government, however, may be more cautious in its operations into Communist-held territory now that the North Vietnamese units are operating at close to normal strength. For their part, the Communists still seem primarily interested in defending their territory, rather than in launching a major offensive. They may well be content to feign attacks toward the provincial capitals of Kontum and Pleiku in an attempt to tie down the South Vietnamese and keep them on the defensive.

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FOR THE RECORD

Ethiopia: Prime Minister Endalkatchew has accepted the resignation of Foreign Minister Minassie Haile, one of the few holdovers from the previous cabinet. His resignation will probably have little effect on foreign relations, but it may be the forerunner of additional cabinet resignations that could lead to the fall of the present government.

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